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TO: Co-chairpersons Senator Joe Bolkcom and Representative Philip Wise and Members of the Legislative Property Tax Study Committee

FROM: Susan Crowley, Senior Legal Counsel, Legal Services Division, Legislative Services Agency

RE: Background Memorandum on Property Tax Interim Study Committees

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I. Introduction.

The purpose of this background memorandum is to provide a summary of the legislative interim studies that have focused on property taxation or that have included property taxation as a component of a more comprehensive study of taxation in the state. The summary covers the period from 1980 to 2004.

The memorandum is divided into three parts, split by decades. Paper copies of the final reports of any of the studies summarized are available upon request to the Legislative Services Agency. Final reports of studies conducted between 1995 and the present may be accessed on the General Assembly website:

<http://www.legis.state.ia.us/asp/Archives/Committees/Interim/CommitteeInfo.aspx>

II. The 1980s.

A. Property Tax Study Committee (1980).

1. Composition and Charge. The Property Tax Study Committee was created by the Legislative Council in response to enactment of H.F. 2072 during the 1980 Legislative Session. The chairperson of the committee was Governor Terry Branstad. The members of the committee included eight legislators (four senators and four representatives) and 12 persons chosen from the general public whose names were put forth by the chairpersons of the Iowa Republican Party and the Iowa Democratic Party. The final report of the committee does not specify the charge of the committee but references language regarding a property tax study in H.F. 2072, S.C.R. 109, and H.C.R. 127. The committee met during the 1980 Legislative Interim.

2. Recommendations. The committee made 15 recommendations to the General Assembly addressing policy changes ranging from delinquent tax penalties to machinery and equipment taxation. All of the recommendations that required a change in the state's property tax law have been enacted by the General Assembly.

B. Tax Study Committee (1983 and 1984).

1. Composition and Charge. The Tax Study Committee was created in legislation enacted in 1983.¹ The charge of the study committee was "to study the tax system of the state to examine who pays state and local taxes in Iowa and to examine the impact of state and local taxes on the state's economy, employment, the state treasury, and the citizens of the state. The study committee was further directed to examine changes which could be instituted to raise revenues more equitably and to improve the performance of the state's economy, to determine the enforceability of the state's tax laws, to examine how the state's entire tax structure compares with the tax structures of other states, and to examine tax preference items." The property tax was one of several taxes specifically cited in the legislation for study.

The study committee was comprised of 11 voting members appointed from the general public by legislative leadership and the Governor and four nonvoting members of the General Assembly appointed by the Legislative Council. The Tax Study Committee met during the 1983 and 1984 Legislative Interims. The study committee retained the firm of Coopers & Lybrand to perform an in-depth analysis of the state's tax structure and of possible modifications to that structure.

2. Recommendations. Rather than stating them as recommendations, the study committee took the "following positions... on particular issues which came before the [s]tudy [c]ommittee" relating to property taxation:²

- Opposes imposition of levy limitations in lieu of assessment and rate limits.*
- Opposes reduction of the assessment ratio (market value to taxable value) in lieu of rollbacks.*
- Supports exemption of all personal property from taxation.*³
- Opposes imposition of payment in lieu of taxes on nongovernmental exempt property.*⁴
- Recommends change in assessment of utility property (specifically rejecting the use of the stock equity–debt ratio formula as the primary basis for determining assessed valuation for utilities).⁵
- Rejects proposal to tax property only for the cost of services and protection provided.
- Opposes assessment and taxation of land valuation only.
- Opposes increasing the rate for the school foundation levy (specifically from \$5.40 per \$1,000 to \$6.20 per \$1,000).
- Opposes reclassification of apartment buildings as residential property.

¹ 1983 Iowa Acts ch. 211, § 2; S.F. 461.

² An asterisk indicates that the issue was proposed by Coopers & Lybrand as a possible modification to the property tax system.

³ In 1985 the personal property tax was repealed effective July 1, 1987. However, the same piece of legislation provided that industrial machinery, equipment, and computers acquired or initially leased on or after January 1, 1985, would be assessed and taxed at 30 percent of net acquisition cost. See 1985 Iowa Acts ch. 32, §§ 105 and 109.

⁴ In 1984 new Iowa Code § 364.19 was enacted, which authorizes cities to enter into contracts to provide municipal services to property that is exempt or partially exempt from property taxation.

⁵ At the time this recommendation was made by the committee, the stock equity — debt ratio was given a 70 percent weighting in utility property valuation. Currently, it is given a 50 percent weighting in most cases. See the Legislative Guide to Local Property Tax (Part IV, E) for more detail on assessment of utility property.

- Recommends change in limit on the agricultural land tax credit, i.e., limit the credit to the first \$1 million for a family farm corporation and the first \$500,000 for individual farms and other agricultural business entities.
- Treat industrial machinery and computers as other machinery and equipment.*⁶
- Recommends elimination of military service tax credit.*
- Recommends elimination of the homestead tax credit and the extension of the elderly and disabled tax credit to all low-income owners and renters.*⁷
- Recommends revision of the assessment formula for agricultural land. (Specifically, a variable capitalization rate, rather than the current 7 percent set in statute, and a productivity formula averaged over three years instead of the current five years*).
- Favors continued coupling of increases in agricultural and residential property assessments.
- Recommends retaining current system in K-12 school system funding (rather than entire per pupil cost funded by the state through elimination of property tax credit reimbursements and an increase in state income and sales taxes*).

NOTE: Under "Other Committee Recommendations," the study committee recommended that local governments be authorized to impose local option taxes if approved by referendum. The study committee cited "local sales, income, wheel or other user taxes" and specifically excluded a payroll tax borne by the employer. In making this recommendation, the study committee stated that although it had "serious reservations" about allowing imposition of local option taxes, "it concluded that local governments should be allowed other sources of revenue in addition to property taxes."⁸

C. Property Tax Issues Study Committee (1986).

1. Composition and Charge. The Property Tax Issues Study Committee was established by the Legislative Council "to review matters relating to property taxes, including who is presently paying, what they are paying for, how collected funds are spent, effectiveness of previous tax relief measures, alternative forms of financing costs and expenses presently financed by property taxes, and review of the burden of proof in property tax assessment appeals." Fourteen members of the General Assembly (seven senators and seven representatives) comprised the membership of the study committee. The study committee met during the 1986 Legislative Interim.

2. Interim Committee Study Bill Without Recommendation. The study committee voted out, without recommendation, for consideration by the General Assembly an interim committee study bill. The bill contained the following divisions related to property tax and school funding:

- Rewrote the school foundation formula to eliminate the foundation property tax and additional property tax. Each school district would receive from the state "state educational aid" for regular program costs. If approved at referendum, a school district

⁶ Computers and industrial machinery and equipment are exempt from property taxes unless such property otherwise meets the definition of property subject to assessment and taxation as real property under Iowa Code § 427A.1. See 1995 Iowa Acts ch. 206, §§ 29 through 33. See also the Legislative Guide to Local Property Tax, Part IV, D.

⁷ In 1990 the elderly and disabled property tax credit and rent reimbursement was extended to low-income homeowners and renters over the age of 18. See 1990 Iowa Acts ch. 1250, §§ 6, 8, 9, and 21. The statute was amended in 1993 to raise the eligible age to 23. See 1993 Iowa Acts ch. 180, §§ 4 and 22. Moneys have never been appropriated to fund that portion of the statute.

⁸ The authority of cities and counties to impose local option taxes if approved at election was enacted in 1985. The local option taxes authorized were sales and services tax, vehicle tax, and earnings tax. See 1985 Iowa Acts ch. 32, §§ 89 through 98. The local earnings tax was repealed by 1986 Iowa Acts ch. 1199, § 9.

could collect an additional enrichment amount for five years through imposition of an income surtax and property tax.

- Limited levy increases for cities and counties to 2 percent a year. However, a 5 percent increase is allowed if a public hearing is held on the proposition, and an increase in excess of 5 percent is allowed if the proposition receives 60 percent approval at election.⁹
- Increases state sales and use tax from 4 to 6 percent.
- Repeals several local government funds and property tax credits, including the homestead tax credit, the agricultural land tax credit, and the military service exemption.
- Provides that equalization orders issued by the Department of Revenue are not mandatory but are guidelines to be used by assessing jurisdictions.

D. Property Tax Reduction Study Committee.

1. Composition and Charge. The Property Tax Reduction Study Committee was established by the Legislative Council to "study property taxes paid in Iowa, including application of property tax exemptions and collection of mobile home taxes, and develop a plan to provide \$30 million in property tax relief commencing July 1, 1991." Sixteen members of the General Assembly (eight senators and eight representatives) were appointed to serve on the study committee. The study committee met during the 1989 Legislative Interim.

2. Recommendations. The study committee recommended that the Legislative Fiscal Bureau be directed to gather information from the Department of Revenue and any other appropriate source listing all of the tax exempt real property in the state by category of charitable and noncharitable and that the charitable category be broken down into income-producing and nonincome-producing property and that this information be provided to the chairpersons of the Ways and Means Standing Committees.

III. The 1990s.

A. Tax Fairness and Equity Interim Study Committee (1991 and 1992).

1. Composition and Charge. The Tax Fairness and Equity Interim Study Committee was established by the Legislative Council to "review Iowa's individual and corporate income, sales, property, and local tax structures, including property tax exemptions and diversions, and tax credits and expenditures to ensure tax fairness and vertical and horizontal equity. In addition, the review shall include tax abatement and tax increment financing. The [c]ommittee will also review state taxation policies regarding retirees living out-of-state." The study committee membership was comprised of 10 legislators (five from each chamber) and five public members. The study committee was authorized to hire a consultant. The Policy Economics Group of KPMG Peat Marwick was retained to develop multitax simulation models for use by the state for tax policy analysis and to study Iowa's state and local tax structure using the tax models for analysis and comparison purposes. The study committee met during the 1991 and 1992 Legislative Interims.

2. Recommendations. The study committee did not issue any recommendations. However, in its executive summary the consultant when listing directions for tax reform in Iowa stated that "[w]ith respect to the property tax, consideration could be given to imposing a charge for local services provided to exempt property."

B. State and Local Tax Review Study Committee (1994).

⁹ See the Legislative Guide to Local Property Tax for a description of the levy limitation placed on local governments from fiscal year 1993-1994 through fiscal year 1997-1998.

1. Composition and Charge. The State and Local Tax Review Study Committee was established by the Legislative Council and charged to "review the Iowa tax system using the criteria of the two-year [KPMG] Peat Marwick legislative study¹⁰ and make recommendations on how the tax system can treat the majority of Iowans more equitably; ensure that Iowa's tax climate remains competitive while ensuring that all individuals and business pay their fair share of taxes; review Iowa's various tax credits to ensure they are properly targeted to meet statewide goals in relieving the tax burden and review the basic structures of Iowa's tax system to review whether features of the system are out of step with most states' tax systems and should be modified to be more in line with a majority of states. The [s]tudy [c]ommittee shall hold a joint meeting with the Economic Development Service Delivery System Study Committee to consider issues relating to the machinery and equipment tax and Subchapter S corporations."

Five senators and five representatives were appointed to the committee. The committee met during the 1994 Legislative Interim.

2. Recommendations. The committee was unable to agree on specific legislative recommendations but listed the following property tax issues as ones in which there was "considerable interest among all members of the committee":

- The lack of funding provided to fully fund the homestead, family farm, agricultural land, and other property tax credits and whether those credits should be fully funded, changed, or eliminated before tax reductions in other areas are considered.
- Reducing property taxes through greater state participation in the payment of county mental health costs or some other mechanism.¹¹
- Elimination of the property tax on machinery and equipment.¹²

C. Nonbusiness Taxation Study Committee (1995).

1. Composition and Charge. The Nonbusiness Taxation Study Committee was established by the Legislative Council and directed to "review nonbusiness state taxation, including property, income, sales and use, and inheritance taxes. The review was to be an analysis of tax equity, taxation incentives and disincentives for economic development, and the long-term objectives of nonbusiness taxation." Five senators and five representatives were appointed to the study committee. The study committee met during the 1995 Legislative Interim.

2. Recommendations. Of the five bill drafts proposed for recommendation by the study committee, two were recommended for further consideration by the General Assembly. One of those two related to property tax by repealing both the agricultural land and family farm tax credits and providing a maximum livestock production tax credit of \$5,000 per livestock operation based upon the amount of corn or corn equivalents used by hog, livestock and dairy, and poultry operations.¹³

¹⁰ The criteria for "evaluation of Iowa tax policy options" employed by KPMG Peat Marwick were equity, economic efficiency (neutrality), competitiveness, revenue adequacy, revenue responsiveness and stability, accountability, simplicity and ease of administration, and exportability.

¹¹ A mental health funding bill, S.F. 69, was enacted in 1995. Among other things, S.F. 69 set a fixed county operating budget for mental health, mental retardation, and developmental disabilities (MH/MR/DD) services, repealed county supplemental levy authorization for these services, and provided for annual state funding to address increased costs for MH/MR/DD services. See 1995 Iowa Acts ch. 206, §§ 5 through 25.

¹² Computers and industrial machinery and equipment are exempt from property taxes unless such property otherwise meets the definition of property subject to assessment and taxation as real property under Iowa Code § 427A.1. See 1995 Iowa Acts ch. 206, §§ 29 through 33. See also the Legislative Guide to Local Property Tax, Part IV, D.

¹³ A livestock production tax credit was enacted in 1996 and is funded with a \$2 million annual state appropriation. See 1996 Iowa Acts ch. 1197, §§ 19 through 21, and 23. For the 1997 tax year and subsequent years, the credit

D. Task Force to Study Iowa's System of State and Local Taxation (1997 and 1998).

1. Composition and Charge. The task force was established by the Legislative Council and charged to "study and make recommendations regarding the state and local tax systems in this state and address the goals of tax simplification, equity, and reduction. The study shall include the local property tax system, individual income tax system, taxation of corporations, financial institutions, and other business taxation, sales, services, and use taxes, and other tax-related topics deemed appropriate by the task force." The task force was authorized to "contract with one or more tax consultants or experts familiar with the Iowa state and local tax systems, or for other contract assistance deemed necessary." The task force was comprised of 10 members of the General Assembly and 11 public members for a total of 21 members. The task force conducted five meetings during the 1997 Legislative Interim and five meetings during the 1998 Legislative Interim.

2. Recommendations. Regarding property taxes, the task force recommended the following:

- That the General Assembly enact legislation requiring reporting by cities and counties on tax increment financing in urban renewal areas and that the Department of Management collect the reports and make the information available to the Legislative Fiscal Bureau for summary, analysis, and dissemination to the General Assembly. The recommendation went on to list 10 elements that were to be incorporated into the reporting forms and that the forms were to be developed by the Department of Management in consultation with the Iowa League of Cities, the Iowa State Association of Counties, and the Iowa Association of School Boards.¹⁴
- That the General Assembly not take action to reenact a property tax limitation on counties similar to the limitation that sunset in fiscal year 1997-1998. The Task Force Final Report stated that "[e]nactment of a property tax limitation without proper passage of time for the state to study property tax trends is ill-advised."
- That the General Assembly allow counties more time (five years) to develop and implement statewide use of a uniform property tax statement.¹⁵
- That counties' cash management policies be reviewed by the state and the counties with a view to enhancing cash flow for counties and eliminating the need for excessive cash reserves by implementing more frequent payment of property taxes.
- That the state provide property tax relief by means of the state assuming costs currently borne by local governments without diluting local control as follows:
 - Increase the state's share of funding for mental health, mental retardation, and developmental disabilities (MH/MR/DD) services and require savings to counties to be passed through to taxpayers.¹⁶
 - Provide that property tax relief be allocated via the school aid formula, "which has a direct effect on a majority of property taxpayers".

was limited to cow-calf operations only. See 1997 Iowa Acts ch. 206, § 3. See also Iowa Code §§ 422.120 through 422.122.

¹⁴ In 1999 new Iowa Code § 403.23 was enacted to require cities and counties to annually report on the urban renewal areas within their jurisdictions. See 1999 Iowa Acts ch. 176, § 1. In 2003 the requirement was changed to biennial reporting. See 2003 Iowa Acts ch. 178, §§ 18 and 19. In 2007 the Iowa Code section was repealed and replaced with a requirement that a city or county budget, as applicable, include information on tax increment financing revenues and debt and that the Department of Management is to make this information available by electronic means. See 2007 Iowa Acts ch. 186 (H.F. 923), §§ 3, 4, and 28.

¹⁵ In 1998 new Iowa Code § 445.6 was enacted to give counties two years to defer implementation of the property tax statement format requirements that were enacted in 1997. See 1998 Iowa Acts ch. 1186, §§ 4 and 5.

¹⁶ Since enactment and phase-in of 1995 Iowa Acts ch. 206 (S.F. 69), county levies for these services have been limited to a fixed dollar amount and state funding known as "allowed growth factor adjustment" funding has been appropriated for the increased costs of the services. Iowa Code §§ 331.424A, 331.438(2), 331.439(3), 426B.5. See 1997 Iowa Acts ch. 198; 1998 Iowa Acts ch. 1213.

- Provide that property tax relief be allocated to fund school district mandates that currently rely almost entirely on property taxes, such as talented and gifted programs, at-risk programs, and special education.¹⁷

E. Condominium Property Taxation Study Committee (1999).

1. Composition and Charge. The Condominium Property Taxation Study Committee was established by the Legislative Council to "study the issue of the property taxation of condominiums (described as apartments in horizontal property regimes in Code chapter 499B). The study shall include classifications which have multiple uses." Six members of the General Assembly (three senators and three representatives) were appointed to the committee. The committee held meetings during the 1999 Legislative Interim.

2. Recommendations. The committee made the following recommendations to the General Assembly:¹⁸

- Nullify existing administrative rules of the Department of Revenue that described residential property and commercial property.¹⁹
- Add to the existing law relating to the real property taxation of condominiums a provision that the fair market value determined for a condominium unit includes the value of its appurtenant share of the land and common elements in order to eliminate the need to separately assess and determine the value of the land and common elements.
- Add to the existing condominium law a provision that states that each condominium unit constitutes for all purposes a separate parcel of real property.
- Add new statutory language prohibiting any existing structure after January 1, 2000, from being converted to a condominium complex unless the converted structure meets the applicable local city or county building code in effect on the date of the conversion, or meets the state building code if the city or county does not have a building code.
- Add statutory language that requires at least 45 days' notice be given the city or county, as applicable, before the filing of the declaration to convert a structure to a condominium complex in order to provide local governments with proof that the conversions have met the appropriate building code.²⁰

IV. The 2000s.

A. Commission on Replacement Funding for Elimination of the Property Tax on Industrial Machinery, Equipment, and Computers (M & E) (2000).

1. Composition and Charge. The commission was established by the Legislative Council to "study the current statutory system under which reimbursement claims are calculated and funds paid by the state to local governments to replace revenue lost from the elimination of the M & E property tax, including the following: evaluating the impact of the phaseout of the M & E property tax on individual units of local government, reviewing the impact from an economic development perspective, assessing the impact of state replacement funds in mitigating the loss of local government revenue, projecting the amount of replacement funding necessary for payment of reimbursement claims to local governments through fiscal year 2006-2007, and recommend modifications of the current statutory system for calculation of reimbursement claims in order to further mitigate the revenue loss to those units of local government for which the elimination of the property tax creates a severe adverse economic impact."

¹⁷ See the Legislative Guide to Local Property Tax (Part XI, C) for a description of changes to the gifted and talented program that resulted in property tax relief.

¹⁸ These recommendations were enacted in 2000. See 2000 Iowa Acts ch. 1142, amending Iowa Code ch. 499B.

¹⁹ See 2000 Iowa Acts ch. 1234.

²⁰ The legislation enacted made this a 60-days' notice requirement. See 2000 Iowa Acts ch. 1142, § 1.

The commission membership was comprised of 10 members of the General Assembly (five senators and five representatives) and eight public members representing various state departments, local governments, and Iowa State University. The commission met during the 2000 Legislative Interim.

2. Recommendations. Rather than formal recommendations, which would have required a majority of members from each chamber voting in favor, the commission adopted the following "items for consideration by the General Assembly":

- Leave current law in place and allow those levy authorities most adversely affected by M & E valuation loss (as determined by meeting specific factors) to temporarily exceed their statutory property tax rate limit for the general fund if the increase has been approved by a vote of the people, and allow those same levy authorities to receive state replacement dollars beyond 2006 for a stated period of time.
- Change the replacement formula to compute claims based on levy authority rather than taxing district. This would provide options such as creating a special fund to enhance replacements to those communities most adversely affected by the loss of M & E valuation allowing an extension of the replacement program.
- Enact a property tax limitation that removes levy rate limits and instead limits the total number of dollars available to a city or county each budget year. Such a limitation would mitigate the effects of a phaseout of the property tax on M & E by allowing cities and counties to make up for losses of revenue caused by taxable valuation loss and to allow budgets to grow by the rate of inflation regardless of valuation gain or loss.

B. Property Taxation Review Committee (2004).

1. Composition and Charge. The Property Taxation Review Committee was established by the Legislative Council and was charged to review and analyze the following:

- a. Revenue sources available to local governments, including taxes, payments in lieu of property taxes, fees, state appropriations, and federal moneys.
- b. The portion of state revenues annually appropriated, or otherwise disbursed, to local governments.
- c. Exemptions, credits, deductions, exclusions, and other reductions in local taxes, authorized by state statute or local ordinance, to local taxpayers and state reimbursement of any property tax credits and exemptions.
- d. Services provided by local governments, including those provided at the discretion of a local government and those mandated by federal or state statutes and regulations.
- e. The role of property taxes in funding local government services and the types of services currently funded by property taxes.
- f. Alternative systems of property taxation, alternative procedures for protesting property assessments, and various methods of controlling property tax revenues and expenditures.

The committee was further charged to conduct its review and analysis "from the standpoint of neutrality; competitiveness; simplicity; stability; and equity, including maintenance of equity among classes of taxpayers and among taxpayers within the same class."

There were six members of the General Assembly (three senators and three representatives) and 10 members of the general public appointed to the committee.

Also, the Director of the Department of Management and the Director of the Department of Revenue were appointed to the committee as nonvoting members. The committee split up into three subcommittees assigned specific areas of study. The committee and the subcommittees met during the 2004 Legislative Interim.

2. Recommendations — Committee Statement. By consensus, the committee agreed to forward the following statement to the General Assembly:

To comply with the Legislative Council deadline of January 7, 2005, for interim committee reporting, the Property Taxation Review Committee puts forth, without recommendation, the reports of the three [s]ubcommittees for review by the General Assembly.

The full reports of the subcommittees can be found on the General Assembly website: <http://www.legis.state.ia.us/asp/Archives/Committees/Interim/2004/Committee.aspx?id=63>

The Options for Iowa Tax Overhaul Subcommittee made recommendations regarding the school foundation property tax; increasing state funding for schools through elimination of state reimbursement for property tax credits and exemptions; eliminating the assessment limitation tie between agricultural and residential property; imposing a uniform level of sales taxation throughout Iowa taxing jurisdictions; removing the barriers to local government reorganization, merger, consolidation, and sharing of services; and addressing the disparity in the classification of property used for housing.

The ISAC/League of Cities Property Tax Reform Proposal Subcommittee studied a property tax reform proposal put forth by the Iowa State Association of Counties and the Iowa League of Cities. The reform proposal was divided into three parts: 1) Assessment and Valuation, 2) Budgeting and Taxation, and 3) Constraints and Limitations. The report of this subcommittee identifies those portions of the reform proposal it supports, with and without modification.

The Other Issues Subcommittee made recommendations regarding property assessment practices and guidelines, creation of a property assessment appeal board, and changes to the property tax statement to increase transparency to the taxpayer.²¹

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²¹ Provisions establishing a procedure for ensuring assessor compliance with statutory and departmental guidelines pertaining to assessment of property were enacted in 2005. See 2005 Iowa Acts ch. 150, §§ 124 and 125, amending Iowa Code § 441.21. A state-level property assessment appeal board was also established in 2005 to hear appeals of decisions of the local boards of review for assessment years beginning on or after January 1, 2007 (new Iowa Code § 441.37A). The assessment appeal board is repealed effective July 1, 2013. See 2005 Iowa Acts ch. 150, §§ 128, 129, and 134.